

Message Text

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ACTION EB-08

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R 121530Z JAN 78

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TO SECSTATE WASHDC 2753

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

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TAGS: EFIN, EIND, ELAB, ETRD, SW, OECD

SUBJ: PRESENTATION OF SWEDEN'S BUDGET FOR FY 1978/79

1. SWEDEN'S BUDGET FOR FY 1978/79 WAS PRESENTED TO THE PARLIAMENT BY ECONOMICS MINISTER GOSTA BOHMAN AND BUDGET MINISTER INGEMAR MUNDEBO ON JANUARY 10. TOTAL EXPENDITURE IS ESTIMATED AT SKR 151.6 BILLION (ABOUT \$25 BILLION), GIVING, ON PAPER, THE APPARENTLY LARGE DEFICIT OF MORE THAN 32 BILLION KRONOR. HOWEVER, REAL
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GROWTH IN THE CONSOLIDATED PUBLIC SECTOR OF THE NATIONAL INCOME ACCOUNTS BETWEEN CY 77 AND CY 78 IS ESTIMATED AT NO MORE THAN 3.5 PERCENT. IN THIS RESPECT THE BUDGET IS TO BE SEEN AS ONLY "MILDLY EXPANSIONARY". ALTHOUGH INCOME TAXES AND THE PAYROLL TAX WERE LOWERED AS OF JANUARY 1, THE ONLY REVENUE-COMPENSATING MEASURES ANNOUNCED IN THE BUDGET WERE A 25-ORE PER LITER INCREASE IN GASOLINE TAX AND A NEW TAX ON AIR CHARTER TRIPS ABROAD (100

KRONOR PER PERSON AND TRIP), BOTH MEASURES TO BE EFFECTIVE ON MAY 1 THIS YEAR. SEPERATE BILLS ON THESE TAXES WILL BE SUBMITTED LATER. COMMENTING ON THIS BUDGET DEFICIT, UNDER-SECRETARY OF THE BUDGET MINISTRY, STEN WESTERBERG, SAID THE DEFICIT WOULD BE NO MORE THAN SKR 8 BILLION IF CALCULATED ACCORDING TO IMF AND OECD RECOMMENDATIONS.

2. ON THE EXPENDITURE SIDE, MINISTER MUNDEBO HAS BEEN VERY RESTRICTIVE, CUTTING BACK ON THE REQUESTS OF MOST MINISTRIES AND PRESENTING NO NEW REFORMS. THE INCREASES ALLOWED ARE IN THE MAIN TO COMPENSATE FOR INFLATIONARY EFFECTS. IN FACT, THE SWEDISH BUDGET IS BECOMING LESS AND LESS OF THE POLITICAL DOCUMENT IT HAS BEEN IN THE PAST. LARGE-SCALE REFORMS AND INDUSTRIAL SUPPORT MEASURES ARE NOW ANNOUNCED ON AN ADHOC BASIS DURING THE YEAR. THIS IS WELL EXEMPLIFIED BY THE FACT THAT THE INDUSTRY MINISTRY'S LINE APPROPRIATION FOR THE NEXT FISCAL YEAR IS SHOWN AS SKR 1.7 BILLION LESS THAN IN THE CURRENT YEAR, BUT THIS VERY MINISTRY WILL PROBABLY HAVE TO SPEND MORE THAN IN ANY YEAR IN THE PAST. THE EXTRA MONEY WILL BE APPROPRIATED IN SUPPLEMENTARY BUDGETS. THE LABOR MINISTRY WILL ALSO REQUIRE SUPPLEMENTARY AMOUNTS.

3. UNLIKE THE SITUATION A YEAR AGO, WHEN THERE WERE GREAT DIFFERENCES OF OPINION AMONG ECONOMISTS ABOUT THE OUTLOOK FOR THE SWEDISH ECONOMY, THIS YEAR'S BUDGET CHIMES IN WITH THE FORECASTS OF THE OECD (AS REPORTED IN SWEDISH PRESS), THE FEDERATION

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OF SWEDISH INDUSTRIES, AND VARIOUS OTHER INDEPENDENT STUDIES ON THE FOLLOWING POINTS: (A) THERE WILL BE NO REAL GROWTH OF GDP IN 1978; (B) PRIVATE CONSUMPTION WILL CONTINUE TO DECREASE VERY SLIGHTLY; (C) EXPORTS WILL INCREASE AT A REASONABLE RATE; (D) IMPORTS WILL BE DOWN SOMEWHAT; (E) INVESTMENTS WILL CONTINUE TO DECLINE SHARPLY; AND (F) THE INFLATION RATE WILL CONTINUE TO BE HIGH. THE BUDGET ENVISAGES THE FOLLOWING PERCENTAGE CHANGES IN VOLUMN BETWEEN 1977 AND 1978:

	CHANGE
GDP	0.2
IMPORTS	-1.3
EXPORTS	5.0
PRIVATE CONSUMPTION	-1.0
INDUSTRIAL INVESTMENTS	-14.9

THE CONSUMER PRICE INDEX IS FORECAST TO INCREASE BY 9 PERCENT. MINISTER BOHMAN BASES CONSUMTION AND INFLATION ESTIMATES ON THE ASSUMPTION THAT WAGES WILL RISE BY NO MORE THAN 10 PERCENT DURING THE YEAR. THE WAGE NEGOTIATING PARTIES SAY THAT ABOUT 8 PERCENT HAS ALREADY BEEN ACCOUNTED FOR BY, AMONG OTHER THINGS,

THE FIFTH VACATION WEEK, WHICH THUS LEAVES ROOM FOR ONLY A 2 PERCENT NOMINAL INCREASE IN WAGES BY BOHMAN'S ASSUMPTIONS.

4. THE GOVERNMENT PERSISTS IN OVERESTIMATING THE COUNTRY'S BALANCE OF PAYMENTS DEFICIT. THE FIGURES GIVEN FOR CY 1977 AND 1978, RESPECTIVELY, ARE SKR 16.1 AND 16.9 BILLION (ABOUT \$3.4-3.6 BILLION). WE BELIEVE THE 1977 DEFICIT WILL ACTUALLY COME IN AT MORE NEARLY SKR 14 BILLION. AN ADDITIONAL AMOUNT OF OVER SKR 7 BILLION IS LISTED AS A PLUS ITEM IN THE CAPITAL ACCOUNTS, BUT IS IN REALITY MOSTLY UNRECORDED EXPORTS OF GOODS AND SERVICES, SO EVEN THE 14 BILLION KRONOR FIGURE GIVES A DISTORTED ESTIMATE OF THE SIZE OF THE DEFICIT.

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5. SWEDEN'S FOREIGN BORROWING IN 1977 TOTALED AN ESTIMATED \$4.5 BILLION, OF WHICH ABOUT ONE-HALF WAS BORROWED BY THE CENTRAL GOVERNMENT. MINISTER BOHMAN EXPECTS SUCH BORROWING TO CONTINUE IN THE CURRENT YEAR.

6. REACTION ON THE PART OF THE SOCIAL DEMOCRATIC AND COMMUNIST
OPPOSITION AND UNION ORGANIZATIONS WERE, EXPECTEDLY, CRITICAL.
OLOF PALME SAID THE BUDGET SHOWS THAT THE COUNTRY LACKS POLITICAL
LEADERSHIP, THAT THE GOVERNMENT IS UNABLE TO REACH A DECISION ON
SUCH AN IMPORTANT QUESTION AS THAT OF ENERGY, AND THAT THE SWEDISH
PEOPLE ARE HAVING TO PAY A HIGH PRICE FOR A "BOURGEOIS" GOVERNMENT.
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THE SOCIAL DEMOCRATS WILL BE SUBMITTING COUNTERPROPOSALS AT
A LATER DATE. THE TRADE UNION CONFEDERATION (LO) SAID IT WAS
UNWILLING TO ACCEPT YET ANOTHER YEAR OF LOWERED LIVING STANDARDS
FOR ITS MEMBERS, AND THE WHITE-COLLAR ORGANIZATION (TCO) CALLED
FOR A MORE EXPANSIONARY POLICY. EMPLOYERS (SAF) WERE ALSO
CRITICAL, STRESSING THAT THERE WAS NO SCOPE FOR WAGE INCREASES
THIS YEAR AT ALL.

7. COMMENT: OF SIGNIFICANT INTEREST IS WHAT THE BUDGET DOES
NOT CONTAIN. THE COALITION GOVERNMENT IS HAVING DIFFICULTY
IN COMPROMISING IN THE TWO SENSITIVE FIELDS OF ENERGY AND
DEFENSE, SPECIFICALLY APPROPRIATIONS FOR THE NUCLEAR POWER
PLANT PROGRAM AND A NEW LIGHT MILITARY AIRCRAFT. THESE TWO
QUESTIONS HAVE BEEN POSTPONED BY EXCLUDING THE STATE POWER
BOARD'S REQUEST FROM THE BUDGET (A SEPERATE BILL IS TO COME LATER)
AND BY CONTINUING TO STUDY THE FEASIBILITY OF A NEW MILITARY
AIRCRAFT FOR YET ANOTHER YEAR.
KENNEDY-MINOTT

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